

ORIGINAL



0000166576

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

RECEIVED

2015 NOV -4 A 9 14

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE JOINT APPLICATION OF
WILLOW VALLEY WATER CO., INC. AND EPCOR
WATER ARIZONA, INC. FOR APPROVAL OF THE
SALE OF ASSETS AND TRANSFER OF CERTIFICATE
OF CONVENIENCE AND NECESSITY

DOCKET NO. W-01732A-15-0131
DOCKET NO. W-01303A-15-0131

Willow Valley Water Co., Inc. files the attached affidavit of Michael Liebman.

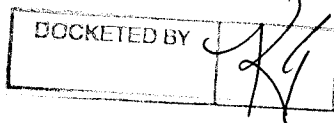
RESPECTFULLY SUBMITTED this 3rd day of November 2015.

SNELL & WILMER, L.L.P

Arizona Corporation Commission

DOCKETED

NOV 04 2015



By

Timothy J. Sabo
400 East Van Buren Street
Phoenix, Arizona 85004
(602) 382-6347
Attorney for Willow Valley Water Co., Inc.

1 Original AND 13 copies of the foregoing
2 Hand-delivered this 3rd day of November 2015, to:

3 The Arizona Corporation Commission
4 Utilities Division – Docket Control
5 1200 West Washington
6 Phoenix, AZ 85007

7 Copies of the foregoing hand-delivered/mailed
8 this 3rd day of November 2015, to:

9 Scott M. Hesla
10 Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, AZ 85007

15 Thomas Broderick
16 Director, Utilities Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, AZ 85007

20 Janice Alward, Esq.
21 Chief Counsel, Legal Division
22 Arizona Corporation Commission
23 1200 West Washington
24 Phoenix, AZ 85007

25 Daniel Pozefsky
26 Residential Utility Consumer Office
27 1110 W. Washington Street, Suite 220
Phoenix, AZ 85007

Thomas Campbell
Stanley B. Lutz
Lewis Roca Rothgerber, LLP
201 E. Washington Street
Phoenix, AZ 85004

By 

AFFIDAVIT OF MICHAEL LIEBMAN
Docket Nos. W-01732A-15-0131 and W-01303A-15-0131

STATE OF ARIZONA)
) ss.
County of Maricopa)

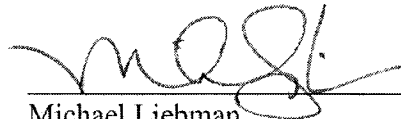
I, Michael Liebman, state as follows:

1. I am the Chief Financial Officer of Global Water Resources, Inc. In that capacity, I oversee the accounting, financial reporting, and preparation of tax returns for utilities owned by Global Water Resources, Inc., including Willow Valley Water Co., Inc., one of the applicants in Arizona Corporation Commission Docket Nos. W-01732A-15-0131 and W-01303A-15-0131.


2. I have reviewed the testimony of Mr. Paul Walker in this matter and agree with Mr. Walker's testimony regarding Accumulated Deferred Income Tax (ADIT) and what happens to ADIT in an asset sale. The attached Exhibit 1 to this affidavit illustrates how an ADIT balance results from the difference between accelerated depreciation for tax purposes and the straight-line method of depreciation for book purposes. Additionally, Exhibit 1 shows the income tax calculated upon an asset sale at the end of year 5. The income tax calculation (as a result of the asset sale) reverses and eliminates the tax to book differential in depreciation rates, which effectively eliminates the ADIT.


3. As Mr. Walker states: "[B]ecause the seller no longer owns the assets that generate the depreciation, the taxes are no longer deferred; the regulatory and tax differences are trued up. In other words, the previously deferred taxes become due." The tax liability for the previously deferred taxes reflected in the ADIT balance will be addressed, upon completion of the asset sale, in the next annual consolidated tax return of Global Water Resources, Inc. (if not earlier), which includes Willow Valley Water Co., Inc.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27


Michael Liebman

SUBSCRIBED AND SWORN to me by Michael Liebman this 3rd day of November
2015.


Notary Public

My Commission expires  KRIS FENEX
Notary Public, State of Arizona
Maricopa County
My Commission Expires
January 09, 2017

GLOBAL WATER RESOURCES, INC
EXAMPLE ADIT CALCULATION - INCLUDES AN ASSET SALE SCENARIO THAT REVERSES THE ADIT BALANCE
AS OF NOVEMBER 3, 2015

Assumed Tax Rate	35%
------------------	-----

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Book Accounting										
Cost Basis	\$100.00	\$90.00	\$80.00	\$70.00	\$60.00	\$50.00	\$40.00	\$30.00	\$20.00	\$10.00
Book Depreciation	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)
Ending Basis	\$90.00	\$80.00	\$70.00	\$60.00	\$50.00	\$40.00	\$30.00	\$20.00	\$10.00	\$0.00
Tax Accounting										
Cost Basis	\$100.00	\$80.00	\$60.00	\$40.00	\$20.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Tax Depreciation [1]	(\$20.00)	(\$20.00)	(\$20.00)	(\$20.00)	(\$20.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Ending Basis	\$80.00	\$60.00	\$40.00	\$20.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gross Book to Tax Basis Difference										
Beginning Book to Tax Difference	\$0.00	\$10.00	\$20.00	\$30.00	\$40.00	\$50.00	\$40.00	\$30.00	\$20.00	\$10.00
Recorded Book To Tax Difference	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)
Ending Book to Tax Difference	\$10.00	\$20.00	\$30.00	\$40.00	\$50.00	\$40.00	\$30.00	\$20.00	\$10.00	\$0.00
Accumulated Deferred Income Tax (ADIT) [2]										
Beginning ADIT Balance	\$0.00	\$3.50	\$7.00	\$10.50	\$14.00	\$17.50	\$14.00	\$10.50	\$7.00	\$3.50
Tax Impacts of Recorded Book to Tax Difference	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50	(\$3.50)	(\$3.50)	(\$3.50)	(\$3.50)	(\$3.50)
Ending Balance	\$3.50	\$7.00	\$10.50	\$14.00	\$17.50	\$14.00	\$10.50	\$7.00	\$3.50	\$0.00

Asset Sale Example Year 5

	Tax Basis	Book Basis	Difference
Assumed Sale Price	\$75.00	\$75.00	\$0.00
Basis	\$0.00	\$50.00	\$ (50.00)
Gain (Loss) Recorded	\$75.00	\$25.00	\$50.00
Taxes Calculated As a Result of Sale [3]	\$26.25	\$8.75	\$17.50
ADIT Previously Recorded	\$0.00	\$17.50	\$ (17.50)
Total Taxes Due	\$26.25	\$26.25	\$0.00

[1] Tax depreciation rates and calculations are for exemplary purposes and simplified to better illustrate the tax to book differential and the true-up of the ADIT balance after an asset sale.

[2] This is the tax effected of the Gross Book to Tax Basis Difference.

[3] In this example, the tax owed of \$26.25 is the amount recorded on the tax return to be trued up and paid when the tax return is filed (which includes the \$17.50 that was previously recorded as ADIT)